



Should You Buy or Sell WestJet Airlines Ltd. (TSX:WJA)?

Description

Over the course of the past few years, airline investments have been some of the [most rewarding](#) for investors with some large airlines seeing incredible gains of over 500%.

Despite that impressive run, analysts are becoming increasingly bearish of airline stocks, as the prospects of an eventual market slowdown begin to gain steam and rapidly increasing fuel prices begin to take their toll on profits.

But are those concerns valid for **WestJet Airlines** (TSX:WJA)? Canada's second-largest airline has seen an impressive gain of over 200% in the past decade, but a pullback over the past year has erased much of those gains which, at one point, were close to 380%.

Let's look at whether WestJet is still a viable addition to your portfolio.

Why investing in WestJet has potential

If there was one word I could use to describe WestJet, it would be *grit*. This is a company that has clawed its way up from a tiny operation based solely in the west of the country to become Canada's second-largest carrier with an expansionist policy that will see the airline create viable routes in lucrative international destinations around the world.

The 787 is an incredible aircraft that dwarfs WestJet's current fleet, both in terms of size and service potential. The new planes could, in theory, fly to China and Japan non-stop from Canada, and the market opportunity that lies in Asia is one that company management hasn't been coy about mentioning in the past. Coincidentally, the airline sought the requisite approvals to begin service to those markets earlier this year.

WestJet's international service potential offers two other key points worth mentioning.

First, the step-up to a full-service international airline will elevate WestJet beyond serving as a feeder airline for other transcontinental airlines. While international routes demand significantly higher costs, the aircraft hold more travelers, more cargo and can open international markets to domestic routes for

even higher revenues.

This point is only exasperated by the second noteworthy point regarding WestJet's ultra-low-cost carrier (ULCC) Swoop. The ULCC began operations this summer, offering another more economical option for passengers, while providing another opportunity for Swoop customers to be fed to WestJet's domestic and international routes where needed.

Why you may want to stay away from WestJet

While there is plenty of optimism around WestJet's expansion, experts are quick to note that the market is overdue for a correction, and one of the first places consumers will strive to cut costs is around travel plans.

Another key point is the rapidly rising price of fuel. In the most recent quarter, WestJet largely attributed its recent \$20.8 million loss in the second fiscal to an over 30% increase in fuel, with some predicting fuel to rise even further before the end of the year.

Those results painted a bleak picture for the airline. By the way, it was the first quarterly loss posted by the airline in 13 years.

To stem those losses, WestJet announced a series of service cuts to some routes, such as Montreal and Quebec City, and eliminated others, such as service to Mexico City.

Final thoughts

While WestJet, and perhaps the entire airline space may be entering a period of contraction, value-minded investors should take note that WestJet is already trading at discounted levels. WestJet's stock price is down nearly 30% year to date, and the P/E has shrunk to 10.54. To put it another way, much of negativity around the company in recent months has already been priced in to what is otherwise still an intriguing long-term play.

If that weren't enough, the drop in price has caused WestJet's dividend to soar to an impressive 2.91% yield.

Value-minded investors would do well with a [small position](#) in WestJet, as over the long term the upward trajectory is likely to resume as both Swoop and the international expansion gain traction. That same strategy could work well with long-time investors looking to lower their investment cost per share and enjoy the quarterly dividend.

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dafxentiou

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